












Lesson Plan

Lesson 8 – Income from Form 1040 Lines 7-11

Time Required: 2-3 hours

Introduction	Objectives	Topics
<p>This is the first of nine lessons covering the Income section of the taxpayer's return. This lesson focuses on the income that is reportable on Form 1040, lines 7-11. A critical component of completing the taxpayer's return is distinguishing between taxable and nontaxable income.</p>	<p>Compute taxable and nontaxable income.</p> <p>Distinguish between earned and unearned income.</p> <p>Report income correctly on Form 1040, lines 7-11.</p>	<p>    </p> <p>Determining taxable and nontaxable income</p> <p>Reporting wages, salaries, tips, etc.</p> <p>Education-Related Income</p> <p>Interest income</p> <p>Dividends</p> <p>   </p> <p>State and local refunds</p> <p>Alimony</p>

Key Terms

Allocated Tips: Tips an employer assigns to an employee. They are in addition to the tips the employee reported to the employer.

Capital Gain Distributions: Also called capital gain dividends. They come from mutual funds and real estate investment trusts (REITs).

Earned Income: Any income received for work, such as wages or business income.

Gross Income: All income received in the form of money, goods, property, and services that is not exempt from tax.

Ordinary Dividends: Corporate distributions paid out of the earnings and profits of the corporation.

Taxable Income: Any income subject to federal income tax.

Tax-exempt Income: Interest that is exempt from federal income tax such as bonds issued by state and political subdivisions (county or city), District of Columbia, and U.S. possessions and political subdivisions.

Unearned Income: Any income produced by investments, such as interest on savings, dividends on stocks, or rental income.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	Review the online demo of TaxWise on Income.	TaxWise® Demo: From the Practice Lab, select: <ul style="list-style-type: none"> • 2011 TaxWise IRS training • TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu • Click the Income button
Provide details and engage the students	Discuss all tips and cautions in detail. Ask students to read and/or role-play examples and sample interviews. Review answers to each exercise; ask students how they arrived at their answers.	Internet: Link & Learn Taxes (L<) Income – Form 1040, Lines 7-11

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	Review lesson objectives. Discuss this lesson is one of the nine lessons that cover income. Review list of references. State the presentation time.	Visuals: Form 1040 Lines 7-21 chart in L< Income, Introduction Form 1040 , Page 1 Income section Form 13614-C , Section A, Part III Pub 4012 (Tab D and Tab 2)

Determining taxable and nontaxable income	<p>Ask students to explain the differences between taxable and nontaxable income.</p> <p>Ask students to provide examples of income that may need to be reported on the tax return, but is not included in income.</p> <p>Ask students to explain earned income vs. unearned income.</p> <p>Inform students that they probe taxpayer to determine all sources of income.</p>	<p>Visuals:</p> <p>Pub 4012 (Tab D) Examples of taxable and nontaxable income</p> <p>Pub 4012 (Tab 2) Examples of income items</p> <p>Internet:</p> <p>FAQ, Taxable & Nontaxable Income</p>
Reporting wages, salaries, tips, etc.	<p>Instruct students to:</p> <ul style="list-style-type: none">• Go over what information is reported on Form W-2• Verify Form W-2 entries on form match TaxWise entries• Check tax year, name and SSN• Recheck all data after data entry• Check for missing Form W-2• Use Form 4137 for unreported tips <p>Remind students that household employees may not receive a Form W-2 if the amount is less than \$1,700.</p>	<p>Visuals:</p> <p>Pub 4012 (Tab 2) Form W-2 Instructions</p> <p>Pub 4012 (Tab 2) How/Where to Enter Income</p> <p>Pub 4012 (Tab 2) How to Enter Tips</p> <p>TaxWise Demo:</p> <p>Link to Form 1040 Pg 1 lines 7-11</p> <p>Link to Form W-2</p> <p>Link to Form 4137</p> <p>Link to 1040 Wkt 1</p> <p>Internet:</p> <p>Tax Map: Tip Income</p> <p>YouTube video: Missing Form W-2</p> <p>Audio Podcast: Missing Form W-2</p>

Education-Related Income	<p>Inform students that taxable scholarship income may be reported on Form W-2. If the amount is taxable but the taxpayer did not receive a Form W-2, it should still be reported on the return.</p>	<p>Visual:</p> <p>Pub 4012 (Tab D) Tax Treatment of Scholarship and Fellowship Payments</p>
Interest Income	<p>Review unearned income.</p> <p>Discuss taxable and tax-exempt interest entry instructions in TaxWise.</p>	<p>Visuals:</p> <p>Form 1040, line 8a & 8b</p> <p>Form 1099-INT</p> <p>Pub 4012 (Tab 2) Schedule B – Interest</p> <p>Pub 4012 (Tab 2) Additional Interest, NAEOB, and State Adjustments</p> <p>TaxWise Demo:</p> <p>Show TaxWise Interest Statement</p>
Dividends	<p>Review</p> <ul style="list-style-type: none"> • Ordinary Dividends • Qualified Dividends • Capital Gain distributions 	<p>Visuals:</p> <p>Form 1040, lines 9a & 9b</p> <p>Brokerage statement from L&LT</p> <p>Pub 4012 (Tab 2) Schedule B – Ordinary Dividends</p> <p>TaxWise Demo:</p> <p>Show TaxWise Dividend Statement</p> <p>Internet:</p> <p>FAQ: 1099-DIV Dividend Income</p>
State and local refunds	<p>Remind students that taxpayers who itemized deductions in 2010 and received a state or local tax refund in 2011 may need to report that refund on their 2011 Form 1040, line 10. All other years should be referred to a professional tax preparer.</p> <p>Remind students that the State and Local Refunds topic is for Intermediate and above certification.</p>	<p>Visuals:</p> <p>Form 1040, line 10</p> <p>TaxWise Demo:</p> <p>Show links in TaxWise to State Tax Refund Worksheet</p>

Alimony	<p>Remind</p> <ul style="list-style-type: none"> Alimony topic is for Intermediate and above certification Child support is not alimony <p>Demonstrate where to get alimony information</p> <p>Demonstrate how to report alimony</p>	<p>Visuals:</p> <p>Form 13614-C, Section A, Part IV</p> <p>Form 1040, line 11</p> <p>Form 1040, line 31a</p> <p>Pub 4012 (Tab E) Alimony Requirements</p> <p>TaxWise Demo:</p> <p>Show links in TaxWise to lines 11 and 31a</p>
Summary	<p>Review the lesson summary with the class.</p>	<p>Visuals:</p> <p>L&LT Income, Summary</p> <p>L&LT Income: Click Assessments icon to review Summary and Exercises</p>
Vanessa Scenario	<p>Direct students to Appendix A, Vanessa practice for Income. After they complete the exercise, ask students if they have any questions.</p>	<p>Visuals:</p> <p>Appendix A Practice for Income</p>
Practice	<p>Select the practice exercise on Income lines 7-11 or continue from previous practice.</p> <p>Ask students to select the problem based on their certification course of study.</p> <p>Verify they have correctly entered the income.</p>	<p>Visuals:</p> <p>Publication 4491-W Basic Comprehensive Problem and Practice Exercises</p> <p>Publication 4491-W Intermediate Comprehensive Problem and Practice Exercises</p> <p>Publication 4491-W Advanced Comprehensive Problem and Practice Exercises</p> <p>Publication 4491-W Military and International Comprehensive Problem and Practice Exercises</p>

References	
L<	Income from Form 1040, Lines 7-11
Form 1040	Form 1040 , Lines 7-11
Form 13614-C	Form 13614-C , Intake/ Interview & Quality Review Sheet, Section A, Part III
Pub 4012	Pub 4012, Volunteer Resource Guide, Tab D and Tab 2 Tab D, Examples of Taxable and Nontaxable Income Tab D, Tax Treatment of Scholarship and Fellowship Payments Tab E, Alimony Requirements Tab 2, Examples of Income Items Tab 2, Form W-2 Instructions Tab 2, How/Where to Enter Income Tab 2 Schedule B – Interest Tab 2, How to Enter Tips Tab 2, Schedule B – Ordinary Dividends Tab 2, Additional Interest
Pub 17	Pub 17 , Part Two, Income
Appendix A	Vanessa Scenario Appendix A
Pub 4491-W	Pub 4491-W – Select a practice exercise for reporting income, lines 7-11.
Optional	
Form 1040 Instructions	Form 1040 Instructions , Lines 7-11
Schedule B	Form 1040 Schedule B
Pub 531	Pub 531, Reporting Tip Income
Pub 970	Pub 970, Tax Benefits for Education

Recommended Classroom Activities



Tax Facts



Assessments



Media: Videos
& Audio



TaxWise
Tutorial



Job Aids



Practice
Lab



Tax Facts: Link & Learn Taxes Income – Form 1040, Lines 7-11

Click Tax Facts for a new way to access Link & Learn Taxes Income.



Assessments – Summary and Exercises

Click Assessments for a new way to access the Summary and Exercises in Link & Learn Taxes Income.



Media: Video & Audio for Lesson

- Audio Podcasts on missing Form W-2
http://www.irs.gov/pub/newsroom/marketing/internet/w-2_english_2009_final.mp3
- YouTube video on missing Form W-2
<http://www.youtube.com/watch?v=VRRzUpBJLKI>



TaxWise Tips and Resources for Lesson

TaxWise screens

Examples of Income
How/Where to Enter Income
Form W2 Instructions
How/Where to enter Tip Income
Interest Statement and Schedule B
Schedule B – Ordinary Dividends
Additional Interest, NAEOB, and State Adjustments

Practice Lab Tutorial

- From the Practice Lab, select:
1. 2011 TaxWise IRS training
 2. TaxWise Desktop Preparer with VITA/TCE Training menu or the TaxWise Online Preparer with VITA/TCE Training menu
 3. Click the Income button

TaxWise TV

<http://www.taxwisetv.com/presentation.asp>



Job Aids

ITA and FAQs for Lesson

Interactive Tax Assistant	Income http://www.irs.gov/uac/Do-I-Need-to-File-a-Tax-Return%3F
Tax Topic	Income http://www.irs.gov/taxtopics/tc400.html
Tax Map	Interest/Dividends/Other Types of Income – Tips http://taxmap.ntis.gov/taxmap/faqs/faq_04-012.htm
FAQs	Interest, Dividends, Other Types of Income http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Interest,-Dividends,-Other-Types-of-Income 1099-DIV Dividend Income http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Interest,-Dividends,-Other-Types-of-Income/1099-DIV-Dividend-Income
References	References for L< Income from Form 1040, Lines 7-11 http://apps.irs.gov/app/vita/content/08/references.jsp



Practice Lab

Practice Lab	http://www.voltaxprep.com/
--------------	---